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Circular Letter

TO: PUBLIC AGENCIES, COUNTY SUPERINTENDENT OF SCHOOLS

SUBJECT: ADDITION TO THE RISK POOL CLASS 2 BENEFIT LIST

CalPERS implemented risk pooling beginning with the June 30, 2003 actuarial valuations that established the 2005-2006 contribution rates. Risk pooling was designed with a set of rules that ensures fairness among all employers. The rules governing risk pooling were established through legislation, regulations and CalPERS Board policies.

The risk pooling regulations are recorded in article 7.6 of Title 2 of the California Code of Regulations, sections 588 through 588.10. Specifically, section 588.8 requires optional benefits that (1) have no impact on ongoing cost, and (2) provide a one time increase in benefit with an identifiable increase in accrued liabilities, to be Class 2 benefits.

Prior service credit purchases authorized by Government Code Section 21031 is an optional benefit that will be added to the Class 2 benefit list. Agencies may elect to contract for this optional benefit, which allows their member employees to purchase as "public service" their employment service that occurred prior to the effective date of the agency's contract with CalPERS. Classifying service purchase under Section 21031 as Class 2 benefits ensures fairness, i.e., other employers in the risk pool will not pay for the employer cost related to purchase of service.

Beginning with the June 30, 2004 annual valuation setting the 2006-2007 employer contribution rate, service purchases authorized under Section 21031 and completed after 6/30/2003 will be measured in the employer rate setting process as Class 2 benefit through adjustments to the side funds. In subsequent years, as data becomes available other similar optional benefits, such as Section 21021 which affects service related to Community College Student Body Organizations, may be added to the Class 2 list. These other sections are rarely invoked.

A handwritten signature in black ink, appearing to read "Ron Seeling".

Ron Seeling, Chief Actuary
Actuarial and Employer Services Branch